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FEDERAL RESERVE BANK
OF KANSAS CITY

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1956 AGRICULTURAL OUTLOOK

THE FOLLOWING DISCUSSION is based upon highlights of the 33rd Annual Agricultural Outlook Conference sponsored by the U. S. Department of Agriculture. The purpose of this conference was to provide information and discussion that would be helpful to farmers, bankers, and others associated with agriculture in planning their business ventures for the new year. This material is organized so that the discussion of the overall agricultural situation will be followed by an analysis for each of the specific commodities most important to Tenth District agriculture.

Farm prices continue to be dominated by the influence of huge supplies of agricultural products which more than offsets the effect of the strong demand that prevails. This set of circumstances resulted in a continued downward trend in the level of prices received by farmers during 1955.

Looking ahead, it is anticipated that business conditions will continue to be good through 1956. Agricultural prices and incomes, barring an unexpected turn of events, again probably will lag as compared with the general business situation. The opinion prevailing at the conference was that if hog production halts its expansion during 1956, livestock producers may get about the same incomes this year as in 1955. However, further declines in the prices of some of the major crops are anticipated and incomes of farmers producing these crops are expected to decline. With normal weather, total crop output is likely to be high again and no significant reductions in carryover stocks are anticipated.

If these opinions are correct, there will be a further drop in cash receipts from farm marketings. Production costs are not likely to decline significantly, since the influences of considerably lower feed costs probably will be offset largely by higher costs of manufactured goods. This type of analysis led to the conclusion that the "cost-price squeeze" will continue this year and that there will be some further drop in net farm incomes, but that the drop from 1955 to 1956 will be less severe than that occurring from 1954 to 1955. This analysis was made for the Nation as a whole. Obviously, there would be exceptions in limited areas and on some individual farms.

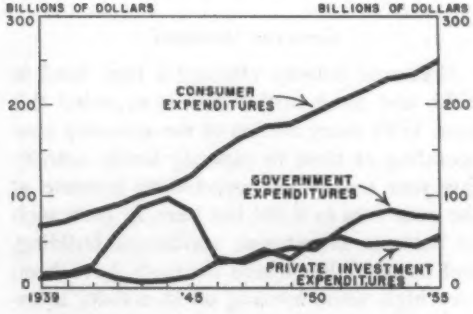
General Demand

Economic activity attained a high level in 1955, and some further rise is expected this year. With many sectors of the economy now operating at close to capacity levels, activity this year cannot be expected to increase at the same rate as it did last year. In parts such as business inventories, residential building, and automobiles, where demands have been very high, some leveling off in activity is anticipated.

During the past year, gross national product (total output of goods and services) increased about 9 per cent—three times the rate that economists have come to consider as "normal" for economic growth. Moderately large unemployment a year ago and a sharp influx of new persons into the labor force during the past year resulted in an adequate supply of labor. Thus, output was increased sufficiently to meet sharply expanded demands at fairly stable prices. In spite of expanded output, there were some inflationary tendencies in metals, machinery, construction materials, and in some of the consumer services. Until fall, declining prices of agricultural products offset rising prices of some industrial commodities. Thus, a high degree of stability in the wholesale price index was maintained. In recent months, however, rising prices of industrial commodities more than offset the decline in prices of agricultural commodities and the wholesale price index increased slightly.

After careful analysis of the general economic situation, it was concluded that total demands in the economy—from consumers, business, and government—can be expected to increase moderately during 1956. Government demands—including federal, state, and local—are not likely to increase substantially from the levels prevailing during the past year. In the construction industry, increased outlays for public construction should about counteract slightly lower outlays for residential construction. The best available information indicates that expenditures by industry for new plant and equipment will average about 13 per cent higher this year than during 1955. Business inventories have been accumulating at a moderate rate for about a year. Total inventories, however, have not yet been brought into line with the higher level of sales. Thus, inventories could continue to increase at about present rates without becoming unbalanced in 1956. Consumer incomes are continuing to rise at a rate of more than $1 billion a month. These rising incomes will help to support a higher rate of purchases. The analysts at the conference concluded, however, that some of the stimulating effects of easy instalment credit, heavy trade-in discounts, and style changes are likely to be lost during the current year.

SOURCES OF DEMAND

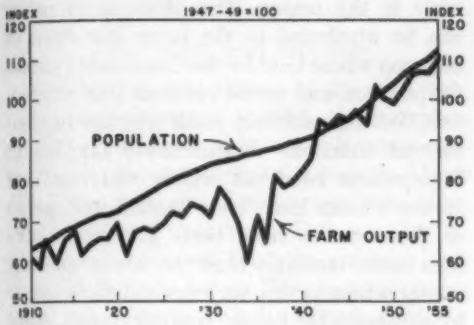


SOURCE: U. S. Department of Commerce.

In summary, it appears that business activity during the present year will be sufficiently high to absorb new entries into the labor force without a significant change in the current low levels of unemployment. Production should be large enough to satisfy increased demands at fairly stable prices. If the rate of increase in demand should continue at 1955 levels, strong inflationary pressures could well appear this year, particularly in prices of some industrial products.

The preceding analysis indicates a continued strong domestic demand for food and other agricultural products. In recent years, American consumers have been spending about a fourth of their disposable income for food. It is anticipated that they will continue

FARM OUTPUT AND POPULATION GROWTH
United States



SOURCE: U. S. Department of Agriculture.

to spend about this portion for food in 1956. Consideration must be given to the fact, however, that consumers are buying more services with their food and that the farmer's share of the consumer's dollar spent for food is considerably less than it was several years ago. It is hoped that export demand for agricultural products during this year can be maintained near the improved level reached during the fiscal year ended June 30, 1955.

Supplies of Agricultural Products

Farm output established a new record high for the fourth consecutive year in 1955. It is estimated that output of agricultural products in 1955 was 4 per cent larger than the previous record high achieved in 1953 and 1954. The large supplies created by this high rate of output will continue to have a depressing influence on farm prices during 1956.

Crop output in 1955 reached a peak equal to the 1948 record high. Output of livestock and livestock products has increased consistently since 1948, and in 1955 was more than a fifth higher than in 1948. With both crop and livestock production either equaling or excelling record highs during the past year, total farm output was huge. Large carryover stocks augmented this high level of production, resulting in price-depressing supplies. The best available data indicate that a high level of production will be maintained through 1956.

Costs and Income

During the past year, prices for a number of the factory-produced items used on farms and farm real estate taxes continued to increase, while prices of many farm-produced items of cost declined. Compared with the 1947-49 period, farm real estate taxes were up by one half, those of farm machinery by about one third, and farm wage rates by about one fifth. On the other hand, feed prices were down about 15 per cent and feeder and replacement livestock prices about 20 per cent.

These same general trends are likely to prevail during the present year. Thorough analysis of the present situation indicates that prices of tractors, farm machinery, and building and fencing materials, probably will average higher for 1956 than for 1955. Fertilizer prices on a per-pound-of-nutrient basis probably will be about the same or slightly less than during the preceding year. Tax rates and farm wage rates in all probability will continue to increase. Of the farm-produced items of cost, it is anticipated that feed and seed prices will average somewhat lower this year than last, while prices paid for feeder and replacement livestock should average about the same. Diverse trends among the various items that make up total farm costs are expected to about compensate for each other and total costs may not vary substantially from present levels.

With receipts from farm marketings expected to be somewhat lower because of lower

income from sale of crops, and costs expected to remain about the same, a further decline in net income is anticipated. This decline, however, should not be as large as that occurring from 1954 to 1955.

Wheat

Although the acreage seeded to wheat for harvest during the past two years has been reduced by 27 per cent, a reduction in the record-high carryover prevailing at the beginning of recent marketing years (July 1 to June 30) is not likely before July 1, 1957. In the current marketing year (July 1, 1955, to June 30, 1956) total wheat supplies will again be at record-high levels. The crop harvested during the past summer is estimated at 938 million bushels. A total of 1,021 million bushels was carried into the current marketing year from production of previous years. About 4 million bushels of feed wheat will be imported from Canada. Thus, total supplies of wheat are estimated at 1,963 million bushels for this marketing year.

Domestic requirements for 1955-56 are indicated to be about 625 million bushels. If exports for the year total the same as the 274 million bushels exported during the last marketing year, the total requirement for wheat from the United States would be 899 million bushels. By subtracting this total requirement from total supplies, a carryover of 1,064 million bushels would prevail at the end of this marketing year (June 30, 1956).

The quantity of wheat used in the domestic market has been quite stable for several decades and little change is anticipated in the near future. Consequently, to maintain total requirements for U. S. wheat, it will be necessary to keep exports at a relatively high level. With world production increasing, it may be difficult to maintain exports from the United States at present levels over a period of years.

Wheat prices in the last half of 1955 were closer to loan levels than they usually are early in the season. This strength in prices can be attributed to the large quantities of old-crop wheat held by the Commodity Credit Corporation and to the reduced 1955 production, leaving relatively small supplies in commercial channels. Furthermore, supplies of high-protein hard red winter and hard red spring wheats have been limited and prices of these grades have been generally above loan rates. Ordinary hard red winter and soft winter wheat prices vary from slightly below to substantially below support prices. Support rates for wheat will be reduced from a national average of $2.08 per bushel this year to $1.81 for the 1956 crop. In addition, a reduction of 20 cents per bushel in 1956 price support rates for 24 wheat varieties designated as undesirable has been announced. Since wheat prices in recent years have been determined largely by support levels, changes in the 1956 program will tend to have a substantial influence on wheat prices this year.

Cotton

The cotton situation in many respects is similar to that for wheat. The outlook in general for the year ahead is for large supplies in relation to disappearance. A record supply of about 26 million bales will be available for the 1955-56 marketing year (August 1, 1955, to July 31, 1956). With the exception of the 1950 crop, cotton production has been larger than disappearance each year since 1947. As a result, carryover by next August 1 is expected to exceed an average year's disappearance.

Domestic mill consumption of cotton in 1955-56 is estimated at about 9.2 million bales. Export requirements are expected to be about 2.5 million bales. If these estimates are correct, disappearance of cotton during the current

marketing year would be 11.7 million bales, substantially less than the 14.7 million bales produced in 1955.

Fats, Oils, and Oilseeds

The most unusual feature of the past marketing year (October 1, 1954, to September 30, 1955) insofar as fats and oils were concerned was the large volume of exports. About 4.2 billion pounds of these products were shipped abroad last year. This was an increase of 17 per cent from the previous high attained the year before. This increase in exports was achieved only by sharply reducing our stocks of food fats and linseed oil. Exports were almost a third of total production from domestic materials.

Production of fats and oils this year will be about 14.4 billion pounds—850 million pounds more than last year. Smaller stocks at the beginning of this marketing year will tend to offset the increased production, so total supplies should be about the same. At present, the export demand outlook is for no substantial change from the levels prevailing during the past year.

Feeds

Supplies of the feed grains for the current marketing year (October 1, 1955, to September 30, 1956) are at record-high levels when measured either on a total or grain-consuming animal unit basis. Although growing conditions have been favorable for feed grain production for a number of years, several other developments also have had an important bearing on the large supplies now available. First, the upward trend in yields over the past 25 years caused by technological developments such as hybrids, better varieties, and fertilization, materially has increased output per acre. Second, the total acreage planted to feed grains has increased 12 per cent since 1953 as land was diverted from crops under acreage allotment to feed grains. Third, stocks of the feed grains have been accumulating under the support programs. Finally, technical developments in livestock feeding have made possible increased production of livestock products per ton of feed consumed. A combination of the above developments is responsible for a prospective feed concentrate supply per animal unit of 7 per cent more than for last year and a little above the previous record high attained during the 1949-50 marketing year.

Prices of feed grains this year will be influenced by large supplies, lower support prices for feed grains, and the large quantity of corn that is not eligible for price support. Thus, feed grain prices are expected to average lower than for a year earlier, at least through this winter. Lower average prices for the feed grains will be an inducement to maintain production of livestock products at high levels through the year. Relatively large supplies of the high-protein feeds and lower prices for most classes of livestock have caused prices of the protein supplements to be lower than a year ago also.

Supplies of hay for the 1955-56 feeding year appear to be larger than for any past year. However, because of large numbers of forage-consuming livestock, supplies of hay in relation to numbers are only slightly above average. Supplies of hay are much better distributed over the country this year than they were a year ago. The feed situation can best be summarized by stating that supplies of all the major kinds of feed are adequate or abundant and generally well distributed throughout the Nation.

Meat Animals

Meat production has shown sizable increases each year for the past four years. A

record high of almost 27 billion pounds of the red meats was produced during 1955. This was 6 per cent more than the 1954 output and 23 per cent more than was produced in 1951. Consumers were supplied with 161 pounds of meat per person in 1955, the largest per capita supply available since 1908.

The outlook is for the volume of meat output to level off in 1956. Strong demand, acreage diverted to feed crops, lower support prices for feeds, and a search by farmers for added sources of income are all expected to cause meat animal production to remain large but to increase little, if any, beyond the high levels of production attained in 1955.

Production of hogs increased sharply in the last two years. However, the 66 pounds of pork produced per person in 1955 is only slightly above the average consumption rate of the last 10 years. The extremely low prices of hogs last fall can be attributed to the sizable increase in the pork supply from 60 to 66 pounds per person within a year, weakness in consumer demand for pork, large supplies of other meats, and widening of marketing margins from their narrower values in 1954.

Although hog prices will likely strengthen seasonally in the early winter months, substantial advances are not in prospect. The best available information indicates that spring farrowings will be slightly smaller than the 1955 spring crop. Hog slaughter during the first half of 1956 will be higher than during the comparable period of 1955. During the second half of the year, slaughter probably will decline slightly from the second half of 1955. This halt in the uptrend of supplies may allow hog prices to regain their 1955 level by midyear and perhaps at later times to exceed the prices of a year earlier.

Both cattle numbers and annual slaughter of cattle and calves have been at record-high levels in recent years. Consequently, beef and veal production has been at record highs on both a total and per capita basis. In 1955, slaughter of cows and heifers was 7 per cent larger than in 1954. This fourth consecutive increase probably reduced the productive capacity of the Nation's cattle herd for 1956 and beyond. If this analysis is correct, a cyclical decline in inventories and slaughter is likely to occur during the current year. The decline is expected to be less than in previous cycles because strong demand for beef and ample supplies of feed will prevent the stringent pressures that have marked the liquidation phase of many previous cattle cycles.

If cattle slaughter does turn downward in 1956, with a continued strong demand, prices likely will commence some cyclical recovery. Changes probably will be modest with strength later in the year more probable than during the early months. However, allowance must be made for the different seasonal variations in the price patterns for different kinds and grades of cattle.

Sheep and lamb inventories on January 1 have trended downward for a considerable number of years. This decline, however, is somewhat misleading, since rising productivity as measured by a higher percentage lamb crop has maintained annual production quite well. Sheep and lamb prices in 1955 averaged about the same as in 1954. Prices this year are expected to average about the same or perhaps increase slightly.

Dairy Products

Economic conditions facing dairy farmers showed some improvement during the past year. However, the industry as a whole continues to operate in a state of instability. Supply continues to exceed demand at support levels and returns to farm labor resources engaged in dairy production will continue to remain relatively low.

Milk production showed some signs of stabilizing in 1954 and early in 1955 after an unprecedented rise prior to mid-1954. From December 1954 through the spring of 1955, production was below that of a year earlier. With stable prices to farmers for milk and reduced feed prices, production began to expand by the second half of 1955, and by the end of the year was several per cent above the levels of a year earlier. For the year 1955, milk production was up about a billion pounds from 1954, and currently it looks as if production could be up another billion pounds in 1956.

In the present year, there may be a moderate increase in receipts from the sale of milk and milk products, although prices received by farmers for these products likely will be influenced by the support level which is yet to be announced for the period beginning April 1, 1956. Net returns of dairy farmers may show a slight increase, since the cost of some items such as feed should average lower this year than for last year.

Poultry Products

This year promises to be another year of large output for the poultry industry. Production of eggs, broilers, and turkeys will likely be at or near record proportions. Although the laying flock will be about 3 per cent smaller during the first half of 1956 as compared with a year earlier, a higher rate of production per hen will probably bring egg production close to that of the first half of 1955. During the last half of 1956, more layers will cause numbers to increase and egg production probably will exceed the levels of the latter part of 1955. Somewhat improved prices for most poultry products during 1955, lower feed prices, and efforts of farmers to find enterprises to bolster income will create strong pressures to increase production of eggs, broilers, and turkeys during 1956. Thus, prices of these products may average somewhat lower during the year.

Fruits and Vegetables

The trend in production of deciduous fruits has been downward slightly during the past decade, while that of citrus fruit has been upward. Per capita consumption of all fresh and processed fruits combined has declined moderately during this period. Total consumption has not changed greatly because of the increase in population. A sharp increase in consumption of frozen fruits and fruit juices has caused per capita consumption of all processed fruits combined to increase moderately, while that of fresh fruit has declined considerably. Strong demand should tend to maintain fruit prices, but since it is difficult to forecast supplies, the price outlook is uncertain.

Per capita consumption of vegetables has tended to increase in recent years. The quantity consumed in processed form has been increasing in relation to that consumed in fresh form. Vegetable production in 1956 will probably be as large or slightly larger than in 1955, and average prices are expected to be near 1955 levels.

FEDERAL RESERVE FLOAT

AMONG THE FACTORS which affect the volume of bank reserves at any given time are a number of technical operating factors of the Federal Reserve System, such as Treasury deposits at the Federal Reserve banks, money in circulation, and Federal Reserve float. Each of these factors has distinctive characteristics which are studied carefully by money market specialists, who seek precision in the analysis of money market developments. The behavior of these factors, however, is of concern to the entire financial community, and also to those individuals having a more general interest in central banking operations. This article investigates the nature and characteristics of one of these factors, Federal Reserve float, and the influence on bank reserves which accompanies changes in float.

Float is a quantitatively minor element of Reserve bank credit. During the week ending September 28, 1955, for example, float averaged $960 million, which was only 3.8 per cent of total Reserve bank credit. As a source of reserves to the commercial banking system, float assumes importance not because of its absolute level but due to its short-run fluctuations. Variations in float often are the principal source of change in bank reserves over short periods of time. The discussion which follows, therefore, gives attention principally to week-to-week and month-to-month changes in the level of Federal Reserve float.

The Concept and Origin of Federal Reserve Float

Float arises in connection with a service function of the Federal Reserve System—the maintenance of check collection facilities. When checks are collected through a Federal Reserve bank or branch, institutions sending checks for collection frequently have their deposit accounts credited at the Reserve banks prior to the date on which the checks are actually collected. Reserve bank credit is then extended for checks as yet uncollected, and the Reserve bank deposit accounts of the institutions sending checks for collection are correspondingly increased. Float is the credit advanced on these uncollected checks.

The reason credit is given to institutions depositing checks for collection before the actual collection date is readily explainable. Enormous accounting expense would be involved if the Reserve System were to give deposit credit for individual items as they are actually collected. To minimize this accounting expense the Reserve banks give credit for groups of items drawn on banks in broad geographical areas, according to a time schedule, or deferred availability schedule. In each area some portion of the dollar volume of checks may be collected prior to the time specified in the official schedule, but a larger portion is not collected within the allotted time period. On balance, then, deposit credit is given by Federal Reserve banks for checks which are still uncollected.

Each Federal Reserve bank and branch has its own time schedule indicating when credit will be given to the deposit accounts of the institutions depositing checks for collection. Immediate credit is given for some items, while for others credit is deferred either one or two days. For example, the head office of the Federal Reserve Bank of Kansas City al-

lows immediate credit on all items drawn on banks in Kansas City, Kansas, and Kansas City, Missouri, on checks issued by a Federal Reserve bank or branch, on Treasury checks, and on postal money orders. Credit is deferred one business day for checks drawn on banks in 18 Federal Reserve bank or branch cities, while credit on other items is deferred two business days.

The level of Federal Reserve float on any given day is determined by subtracting the dollar volume of checks for which credit has not been given (deferred availability cash items on the consolidated statement of the Federal Reserve banks) from the dollar volume of checks not yet collected (uncollected cash items on the Reserve banks' consolidated statement). The difference between these two items represents the dollar volume of uncollected checks for which deposit credit has been given and therefore measures the amount of float credit extended by the Federal Reserve banks.

The bulk of the items collected through the Reserve banks are checks drawn upon member banks and deposited for collection by member banks. Therefore, it is principally the reserve positions of member banks which are directly influenced by variations in the level of float. Some nonmember banks also utilize the System's check collection facilities, however, and these banks' reserve positions may be altered by float variations. In addition, fluctuations in float to some extent influence other deposits held at the Federal Reserve banks, such as those of the Treasury. Analysis of the effect of float variations on bank reserves is not unduly complicated by this fact, however. The proportion of total float which represents Reserve bank deposits gained by other than member or nonmember clearing banks is quite small, although this proportion is not readily ascertainable. Moreover, precision in money market analysis requires consideration of all of the factors affecting bank reserves, and these factors include variations in other deposits held at the Federal Reserve banks.

Changes in the Level of Float

Changes in the level of float occur whenever the volume of uncollected cash items rises or falls in relation to deferred availability cash items. Broadly speaking, variations in the magnitude of float occur for one of three reasons.

First, it is apparent that a change in the official deferred availability schedules, indicating the date on which credit is given to a bank depositing checks for collection, will affect the level of float, other things remaining the same. An increase in the number of days' deferment decreases the volume of uncollected checks for which credit is given, hence such a change reduces float. Conversely, shortening of the deferred availability schedules increases float.

Second, an increase or decrease in the average time required to collect a given volume of checks tends to increase or decrease float. Any important permanent change in the speed of check collection is likely to be accompanied by an offsetting change in the deferred availability schedules. In the short run, however, temporary delays which cannot be counterbalanced by changes in the offical schedule are encountered in the check collection process. Grounding of aircraft during inclement weather, tie-up of transportation or postal facilities during holiday rush periods, strain on check processing facilities of the Reserve banks, Saturday bank closings, bank holidays, and other factors, all tend to delay check collections and increase float.

Third, the level of float varies directly with the volume of checks collected. This is true

MONTHLY FLOAT LEVELS IN 1953
Averages of daily figures

SOURCE: Board of Governors of the Federal Reserve System.

because the dollar volume of checks not collected within the time specified in the schedules considerably outweighs the dollar volume collected prior to the specified time period. A rise in the total flow of check collections, therefore, increases the net balance of uncollected checks for which advance credit is given, and hence float rises.

On a month-to-month basis float exhibits a seasonal pattern, although the fluctuations are not sufficiently regular to enable calculation of a reliable monthly seasonal index. The accompanying chart depicts the monthly changes in float during 1953, a year in which float displayed monthly variations which are more or less typical. Float tends to be high during the winter months of December and January, reaching its monthly peak in December, when holiday purchases swell the volume of check collections and transportation and postal facilities are overcrowded with Christmas mail. Payments of quarterly tax liabilities, which historically have taken place in January, March, June, and September, but now occur in April as well, expand the volume of check collections in these months and create a higher level of float. The typically high float figures for January may also be a consequence of delay in mail deliveries associated with a holdover of Christmas mail and with the greater irregularity of air transportation which characterizes months of inclement weather. The lowest average monthly level usually occurs in August, when float may be as much as $600-$700 million below its average December level. Month-to-month changes in the level of float, however, are seldom larger than $200 million.

Float also undergoes an intramonth cycle which is associated mainly with the bill-paying habits of the business community. Businesses customarily pay a large portion of their current obligations prior to the middle of the month. These checks are received, deposited in the receivers' bank accounts, and then sent to a Federal Reserve bank to be cleared. Daily check clearings at Federal Reserve banks begin to rise noticeably around midmonth, creating an expansion in float. Peak levels of float usually occur during the third week of the month. The midmonth rise in float typically adds $200-$300 million to bank reserves, and on occasion the increase may be even larger.

Day-to-day variations in the level of float are much less regular, since they are related to sporadic influences such as holidays, temporary slowdowns in mail deliveries, and so forth. There is, however, a tendency for float to rise noticeably towards the end of each week.

The Distribution of Float Credit

As has been indicated, it is reasonable to assume that variations in the level of float have their immediate impact principally upon the reserve positions of member banks. An interesting question arises pertaining to the distribution among member banks of the reserves created by variations in the level of float. This problem will be pursued from two

avenues: (1) what is the significance for banks in the Tenth Federal Reserve District of regularly published national float figures? and (2) what classes of member banks—central reserve city, reserve city, or country—experience alterations in their reserve positions as a result of changes in float?

In considering the District significance of national float figures, one is immediately led to a comparison of District with national data on the level of float and its variations. This comparison yields useful information, however, only to the extent that changes in District float figures represent reserves gained or lost by District member banks.

Part of the float credit extended by the Federal Reserve Bank of Kansas City and its branches increases the reserves of banks outside of the Tenth District, and at the same time part of the float credit extended by other Reserve banks or branches affects the reserve positions of Tenth District member banks. Checks drawn on Tenth District member banks which are sent to New York, for example, and deposited in member banks there, may be collected through the Federal Reserve Bank of Kansas City or one of its branches. These checks may give rise to unequal variations in uncollected cash items and deferred availability items in the Tenth District figures, and hence to a rise in Tenth District float. This expansion in float, however, creates reserves for the member banks depositing the checks for collection, which in this case are member banks in other Federal Reserve districts. Similarly, checks sent from the Tenth District for collection give rise to changes in float at other Federal Reserve banks, which are accompanied by variations in the reserves of Tenth District member banks.

Unfortunately, the amount of Tenth District float credit which creates reserves for Tenth District member banks cannot readily be determined by empirical means, nor can the amount of float credit extended by other Federal Reserve banks which expands the reserves of Tenth District member banks be established easily. From a logical viewpoint, however, it is apparent that apart from seasonal or random factors affecting the regional distribution of check payments, interdistrict check collections in the short run tend to be mutually offsetting. Short-run variations in Tenth District float affecting the reserves of nondistrict banks are approximately offset by corresponding changes in the float credit extended by other Federal Reserve banks influencing District bank reserves. Week-to-week and month-to-month alterations in Tenth District float figures, therefore, are reflected in the reserve positions of Tenth District member banks.

Keeping this necessary qualification in mind, we may proceed to a comparison of Tenth District and national float figures. The level of Tenth District float is, on the average, slightly less than 6 per cent of national float. In general, Tenth District float displays the same pattern of intramonth and intermonth movements which are characteristic of na-

MONTHLY FLOAT LEVELS IN 1954

Averages of daily figures

Month	Tenth District	All Federal Reserve Districts	Tenth District as Per Cent of Total
	(In millions of dollars)		
January	44.0	861	5.1
February	36.6	667	5.5
March	44.2	712	6.2
April	37.0	696	5.3
May	41.5	640	6.5
June	47.3	710	6.7
July	43.3	695	6.2
August	44.0	654	6.7
September	43.1	725	5.9
October	44.0	720	6.1
November	44.5	769	5.8
December	59.5	992	6.0

SOURCE: Federal Reserve Bank of Kansas City and Board of Governors of the Federal Reserve System.

tional float figures. This is not surprising, since many of the factors which affect the level of float cross regional boundaries. The accompanying table shows the relationship between the average monthly levels of Tenth District and national float during the year 1954. In four cases, month-to-month changes in Tenth District and national float were in opposite directions, although in each case the variation in national float was less than $75 million. Larger fluctuations in national float from month to month, particularly the January to February and the November to December changes, were accompanied by sympathetic movements of float credit at the Federal Reserve Bank of Kansas City. Data on average weekly levels of Tenth District and national float, which are not presented here, also display the basically sympathetic behavior of these two series. The stability of the ratio of Tenth District float to national float is less, however, when average weekly levels of the two series are compared. In general, then, published figures on national float and its variations are meaningful in terms of changes in the reserve positions of District member banks, but it would be difficult to estimate precisely the volume of reserves gained or lost by District banks which accompanied a given change in the level of float nationally.

Evidence concerning the distribution of float among member banks by reserve classes is also somewhat intangible. This distribution is materially affected by the fact that country banks frequently collect checks deposited with them by their customers through their city correspondent banks and remit for checks drawn on them by drawing on their correspondent balances. During the semimonthly period ended October 31, 1955, for example, the average daily level of cash items in the process of collection at Tenth District country member banks amounted to only 11 per cent of the total for all member banks in the District. During the same period, demand deposits at country banks constituted 46 per cent of the total for all member banks in the District. These figures are a result of the fact that country banks collect a substantial proportion of the checks deposited with them through correspondent banks, and frequently receive immediate credit for these checks. It is very likely, therefore, that an increase or decrease in Federal Reserve float reflects reserves gained or lost principally by banks in the larger cities, that is, by reserve city or central reserve city banks.

Since city banks frequently give immediate credit for items deposited with them for collection by their country correspondents, an enlarged flow of collectible checks from country banks to city correspondents results in an expansion of correspondent balances. An increase in float created by an increased volume of check collections, therefore, is accompanied not only by an expansion of reserves at city banks but also by an expansion of interbank balances maintained by country banks with their city correspondents. Thus, funds become available to country banks for use in expanding loans, purchasing other income-earning assets, or perhaps reducing their indebtedness to the Federal Reserve banks. If, however, an expansion in the level of float is created by delay in the check collection process, interbank deposits are not likely to be affected when country banks receive immediate credit to their correspondent balances.

A discussion of the distribution of float credit must also take into account the fact that banks may be affected indirectly by the impact of float variations on the general tone of the money market. An increase in float, which provides reserves to the banking system, may be accompanied by a decline in the

rate of interest on Federal funds, or perhaps by an easing of the Treasury bill rate. Thus, a bank whose reserve position is not directly affected by an increase in float may, nevertheless, discover that reserve funds are made available at reduced cost.

The Significance of Changes in Float

Short-run variations of $200-$300 million in the average daily level of national float are common, but changes larger than $500 million are very infrequent. Tenth District float, assuming that it creates reserves principally for Tenth District member banks, supplies slightly less than 5 per cent of the total reserves of these banks, and short-run fluctuations in Tenth District float rarely alter the total reserves of these banks by more than 3 per cent. It might be wondered, therefore, whether variations in bank reserves created by fluctuations in float are too small to be taken into account in the reserve management policies of commercial banks.

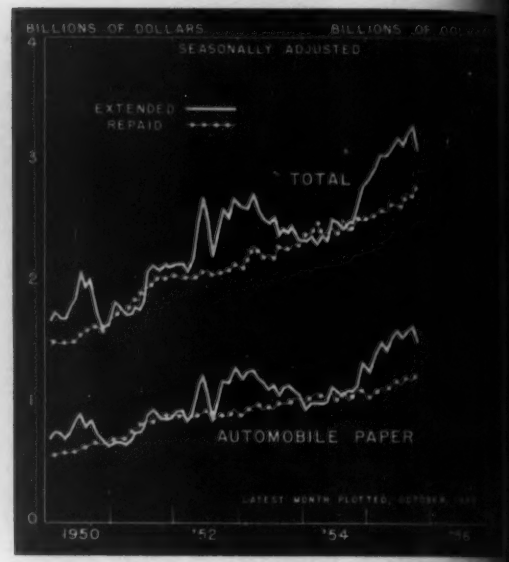
The answer to this question depends materially upon the fact that float variations have their immediate impact chiefly on the reserve positions of central reserve and reserve city banks. These banks typically operate on a very low margin of excess reserves, even in times of relatively easy money market conditions. During the relatively stringent money market conditions existing in February, March, and April, 1953, for example, the ratios of excess to required reserves at these banks averaged .65 per cent. In July, August, and September, 1954, when comparatively easy money market conditions prevailed, this ratio stood at 1.15 per cent, or just one half of one per cent higher than during the stringent money market months. These banks are evidently very sensitive to even minor changes in their reserve positions and make market adjustments designed to minimize the volume of non-income-earning assets on hand. If this is true, fluctuations in float which are not offset by corresponding variations in other factors affecting bank reserves will elicit a response on the part of commercial banks which may affect various sectors of the money market. The behavior of float then assists in the explanation of correlative changes in other money market variables.

Summary

Changes in Federal Reserve float alternately supply and withdraw reserves from the banking system. Week-to-week and month-to-month variations in float are recurrent and to a degree predictable, and these short-run variations often bulk large relative to changes in other factors affecting bank reserves. The immediate impact on bank reserves created by float variations appears to be concentrated mainly on the reserve positions of banks in the larger cities, since country banks typically collect a high proportion of checks deposited with them through their city correspondents. It is important for both the commercial banker and the money market analyst to recognize that reserves supplied to the banking system by periodic changes in float are of a temporary character. Consideration of the effects of float on bank reserves also assists in the explanation of short-run variations in other money market variables.

AVERAGE WEEKLY EARNINGS IN MANUFACTURING, U. S.

CONSUMER INSTALMENT CREDIT, U. S.



BANKING IN THE TENTH DISTRICT

District and States	Loans				Deposits			
	Reserve City Member Banks		Country Member Banks		Reserve City Member Banks		Country Member Banks	
	November 1955 Percentage Change From							
	Oct. 1955	Nov. 1954	Oct. 1955	Nov. 1954	Oct. 1955	Nov. 1954	Oct. 1955	Nov. 1954
Tenth F. R. Dist.	+3	+16	+1	+6	−3	−7	0	−1
Colorado	+4	+22	−1	+17	+1	−1	0	−1
Kansas	+3	+18	+3	−5	−3	−7	−1	−2
Missouri*	+2	+10	+1	+14	−1	−8	+1	−1
Nebraska	+4	+16	+2	+6	−2	−9	−1	−6
New Mexico*	**	**	+3	+33	**	**	+4	+9
Oklahoma*	+3	+17	+2	−1	−10	−9	0	−1
Wyoming	**	**	−2	+11	**	**	+3	−1

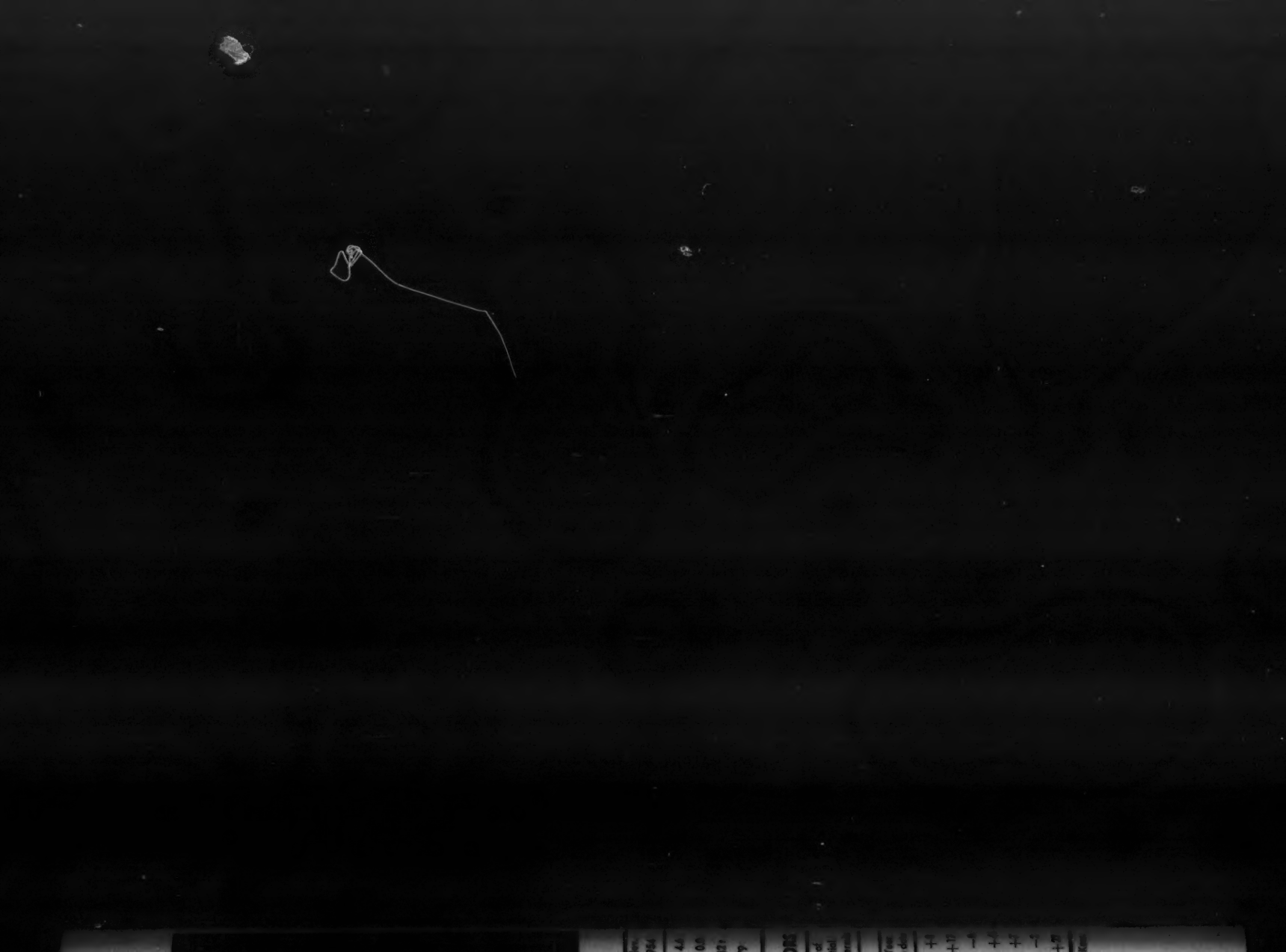
*Tenth District portion only. **No reserve cities in this state.

PRICE INDEXES, UNITED STATES

Index	Nov. 1955	Oct. 1955	Nov. 1954
Consumer Price Index (1947-49=100)	115.0	114.9	114.4
Wholesale Price Index (1947-49=100)	111.2	111.6 r	110.0
Prices Rec'd by Farmers (1910-14=100)	225	230	242 r
Prices Paid by Farmers (1910-14=100)	279	280	279

r Revised.

TENTH DISTRICT BUSINESS INDICATORS

District and Principal Metropolitan Areas	Value of Check Payments		Value of Department Store Sales		*Value of Residential Building Permits	
	Percentage change—1955 from 1954					
	Nov.	Year to date	Nov.	Year to date	Nov.	Year to date
Tenth F.R. Dist.	+7	+10	+7	+8	−40	+8
Denver	+9	+13	+15	+15	+5	+7
Wichita	+2	+9	+4	+13	−80	−40
Kansas City	+5	+10	+4†	+4†	−44‡	+6
Omaha	0	+1	0	+2	−9	+4
Okla. City	+10	+14	+7	+12	−52	−8
Tulsa	+10	+9	+3	+3	−31	+10

*City only. †Kansas City, Mo., only. ‡Kansas City, Mo., and Kan.